

February 17, 2006

Maine Milk Commission Special Meeting Minutes
Deering Building, Room 233
Augusta, Maine 04333

Notices for the February 17, 2006 meeting were distributed to Commission members, intervenors and other interested parties January 20, 2006 and sent to the Secretary of State's Office for posting on February 1, 2006.

Commission Present: Chair, Michael Wiers, Katherine O. Musgrave, John Joseph Jr. and Shelley Doak *ex-officio*.

Commission Absent: Colon Durrell

Department Officials: None

Staff Present: Stanley Millay, Executive Director, and Carol Gauthier clerical assistant

Legal Counsel: Lucinda White, Assistant Attorney General

Intervenors Present: John Blake, H.P. Hood, Inc., Thomas Brigham, Oakhurst Dairy and John Economy, Garelick Farms.

Others Present: Fred Hardy, Dale Cole, and Julie-Marie Bickford from the Maine Dairy Industry Association (MDIA), Dr. George Criner from the University of Maine and Clayton Davis and Steve Pyne both from Dairy Marketing Services.

Meeting called to order at 2:05 P.M. by chair, Michael Wiers.

Agenda Item 1: Minutes: Katherine Musgrave made a motion to accept the minutes of the January 20, 2006. Shelley Doak seconded. Motion passed 3-0.

Agenda Item 2: Lucinda White, Assistant Attorney General: No report.

Agenda Item 3: Minimum Prices: The prevailing premium is \$1.10/cwt on Class I for March 2006 reported by Dairy Marketing Services. Agri-Mark Cooperative reported \$0.90/cwt on Class I outside of Maine but reported that they continue charging their Maine customers \$1.10/cwt.

There is a Farm Bill Counter Cyclical Payment (MILC) for March 2006 of \$0.408. Congress has reauthorized the MILC program at a reduced rate: (34% of \$16.94 minus the Class I Price).

Stan Millay presented the Commission with 6 examples of price schedules using different producer margin adjustments. This was done because the newly adopted producer study, effective on March milk, provides Maine producers a higher level of support from the stabilization program and also to provide the Commission information on how minimum prices change with each adjustment.

Tom Brigham questioned whether or not \$1.10/cwt on Class I was caused by action of the Commission instead of by market forces in Southern New England.

Steve Pyne explained that Dairy Marketing Services was still at a \$1.10 prevailing over-order premium to their customers in Southern New England, including Maine.

Lucinda White pointed out that the statute says the minimum wholesale prices paid to producers are based on prevailing Class I, II and III prices prevailing in Southern New England and that the Commission should consider this when setting prices.

Chairman Wiers said that the Commission must act within the bounds of the statute and should base their decisions on the testimony before them.

Dale Cole stated that producer prices in Maine are so low that they are not responsible for high retail supermarket prices.

John Joseph made a motion to adopt the Federal Order Class I price for March 2006 of \$15.74 plus a processor assessment of \$0.20/cwt. plus a producer cost of production adjustment of \$0.89/cwt., plus a handling fee of \$1.40/cwt. Shelley Doak seconded the motion.

Tom Brigham pointed out that part of the \$0.89/cwt producer margin adjustment added to Class I in Maine the past several months was in response to rising energy costs. Therefore, the Commission should consider lowering this adjustment for March prices because the newly adopted study provides Maine producers a higher level of support from the stabilization program.

Julie-Marie Bickford reminded the Commission that the new study was based on 2004 data, and while the conclusions of the study did include fuel adjustments through 2005, it did not consider increased costs to producers due to other factors such as electricity, transportation surcharges, feed and insurance.

Fred Hardy asked the Commission to note that the cost of production adjustment suggested was well below those set forth in the study and in the producer margin rule. He pointed out that processors and retailers have built-in margins in the minimum prices while producers must take what is left over.

Tom Brigham urged the Commission to consider the impact on consumers when setting minimum prices.

John Blake explained that the producer cost adjustment is a cost for processors inside Maine and does not effective out of state processing and tends to make the Maine processor more uncompetitive. He stated that the higher the Commission sets this adjustment, the more out of balance it makes Maine processors versus outside of Maine processors.

Motion passed 3-0.

Agenda Item 4: Maine Monthly Price Survey: The Commission reviewed the Maine price survey for February 2006 which included prices for Augusta and Bangor and they reviewed the International Association of Milk Control Agencies price survey for December 2005.

Agenda Item 5: Next Scheduled Meetings:

- March 17, 2006, Friday 2:00 p.m.
Room 233, Department of Agriculture, Food & Rural Resources
Augusta, Maine

- April 21, 2006, Friday 2:00 p.m.
Room 233, Department of Agriculture, Food & Rural Resources
Augusta, Maine
- May 19, 2006, Friday 2:00 p.m.
Room 233, Department of Agriculture, Food & Rural Resources
Augusta, Maine
- June 23, 2006, Friday 1:30 p.m.
Room 233, Department of Agriculture, Food & Rural Resources
Augusta, Maine

Agenda Item 6: Other:

1. **Milk Commission Budget:** The Commission Reviewed income and expenditures.
2. **Producer Margins and Dealer Margins**

The cost of production study results are based on 2004 data collected from farm surveys. Since this data collection occurred, energy costs have risen significantly. As a result, transportation costs, fuel and other energy related costs for Maine milk producers are much higher than those reflected in the study. In January, the Commission concluded that the statute limited the Commission to the short-run breakeven cost of production levels identified in the study and to production ranges that were within the scope of the study. They also concluded that they could not further modify the study results without further investigation. They asked that Dr. Dalton come back to the Commission with a proposal to look at the 2004 study to see if there was a method possible to update it sooner than three years.

Based on the above request, Stan Millay discussed the issue with Dr. Dalton and reported that he was able to extend the current Producer Cost Study contract with the University through December 2006. This will provide time for Dr. Dalton to provide the Commission with the updates requested.

Dr. Criner presented a proposal for a cooperative agreement between the Commission and the University to study processing costs.

Shelley Doak made a motion to proceed with work on a processing model as outlined by Dr. Criner. John Joseph seconded. Motion passed 3-0.

Stan Millay will meet with processors, interested parties and University staff at 1:00 PM on March 17, 2006 to discuss how the processing models will be developed.

Agenda Item 7: Executive Session: The Commission did not go into Executive Session

Meeting Adjourned: 3:20 P.M.

Stanley Millay, Executive Director, Maine Milk Commission.